Internal Revenue Service Q/A about the Form W-2G

By Terri Anderson, Revenue Agent, Central Mountain

- Q1: Who must file a Form W-2G (Certain Gambling Winnings)?
- **A1:** A tax-exempt organization sponsoring a gaming event must file Form W-2G when an individual wins a prize over a specific value amount. The form is used to report gambling winnings or to report both gambling winnings and any federal income tax withheld on the winnings.
- **Q2:** What types of gaming can trigger the requirement to file Form W-2G for reporting and withholding taxes?
- **A2:** The requirements for reporting and withholding depend on the type of gambling, the amount of the gambling winnings, and generally the ratio of the winnings to the wager.
 - The sources of gambling subject to the reporting requirement and/or withholding includes: horse-racing, dog-racing, jai alai, sweepstakes, wagering pools, lotteries, bingo, keno, and slot machines
- Q3: What amounts of gambling winnings determine when the form must be filed?
- **A3:** The general rule is that gambling winnings are reportable if, after deducting the price of the wager, the amount paid is (1) \$600 or more **and** (2) at least 300 times the amount of the wager. However, there are different standards for bingo, keno, and slot machines.

Keno: If the winnings, after deducting the price of the wager, are \$1,500 or more, they are reportable gambling winnings.

- **Bingo or Slot machine**: If the winnings, regardless of the wager, are \$1,200 or more, they are reportable gambling winnings.
- **Q4:** What about noncash winnings?
- A4: A noncash payment, such as a car, must be evaluated at its fair market value for purposes of reporting and withholding. If, after deducting the price of the wager, the fair market value exceeds \$5,000, the winnings are subject to 28% regular gambling withholding. (38.88% if the charity pays the withholding amount on behalf of the winner.) Refer to Instructions for Forms 1099, 1098, 5498, and W-2G and Specific Instructions for Forms W-2G and 5754 for more details.
- **Q5:** When does the tax-exempt organization file the Forms W-2G?
- **A5:** The tax-exempt organization organizing the gaming event must furnish each winner meeting the filing requirement a Form W-2G by January 31. In addition, it must send Copy A of the W-2G, along with Form 1096, to the IRS by the last day of February. See the instructions on Form 1096, Annual Summary of U.S. Information Returns, for additional information regarding submission of the W-2G to the IRS.

Note: If the winner does not provide a correct identification number, i.e. social security number, a different type of withholding, called backup withholding, may apply. The backup withholding rate is 31%. See Publication 3079 or the 1099 instructions for more information.

Example 1

ABC Charity conducts a fund-raiser in which it sells raffle tickets for \$25 each. The grand prize is \$6,000 in cash.

Is the prize greater than \$600? Yes.

Is the prize, reduced by the amount of the wager (\$6,000-\$25=\$5,975), greater than 300 times the amount of the wager, ($300 \times $25 = $7,500$)? No.

No Form W-2G is required. Form W-2G must be filed only when the prize is \$600 or more **and** at least 300 times the amount of the wager.

Example 2

A nonprofit charity conducts a fund-raiser in which it sells raffle tickets for \$2 each. The prize is a large-screen TV with a fair market value of \$2,000.

Is the prize, less the value of the ticket, (\$2,000 - \$2 = \$1,998) \$600 or more? Yes. Is the prize, reduced by the amount of the wager (\$2,000 - \$2 = \$1,998), greater than 300 times the amount of the wager, $(300 \times \$2 = \$600)$? Yes

The organization must complete Form W-2G to report gambling winnings. However, in this instance, no withholding is necessary since the prize is less than \$5,000.

Example 3

CDN has a winner of \$5,100 from a \$10 pulltab. Because the winnings, less the wager, are greater than \$5,000, Federal income tax must be withheld. The amount of income tax withheld is calculated based on the winnings, minus the wager, multiplied by 28% (\$5,100 - \$10 x .28 = \$1,425.20). The income tax withheld is reported on Form 945 (Annual Return of Withheld Federal Income Tax). The winner receives \$3,674.80 (\$5,100 gross winnings less \$1,425.20 withholding tax).

The organization must complete Form W-2G to report gambling winnings and withholding, since the prize is greater than \$5,000.

Example 4

CDN, an exempt organization, conducts a weekly bingo game. A payout of \$1,300 is made for a single game. The winner furnishes identifying information including the SSN to the organization.

The organization must complete Form W-2G because the winnings exceed \$1,200. The regular gambling withholding of 28% does not apply to bingo.

Example 5

XYZ Charity conducts a fund-raiser in which it sells raffle tickets for \$10 each. The grand prize is a snowmobile with a fair market value of \$7,000. Since the prize, less the price of the ticket, (\$7,000 - \$10 = \$6,990) is more than 300 times the amount of the wager $($10 \times $300 = $3,000)$, a Form W-2G is required. Furthermore, since the prize, less the price of the wager, exceeds

\$5,000, the winnings are subject to regular gambling withholding. The amount XYZ must withhold is computed and paid under either of the following two methods:

- 1. The winner pays the withholding amount to the XYZ charity. When a winner pays the withholding amount to the sponsoring charity, the withholding is at a rate of 28% of the noncash payment (fair market value) minus the amount of the wager (.28 x \$6,990 = \$1,957.20). The charity submits the withholding amount to the IRS on the Form 945.
- 2. XYZ pays the withholding amount on behalf of the winner. If the charity pays the withholding amount on behalf of the winner, the withholding is at a rate of 38.88% of the noncash payment (fair market value) minus the amount of the wager (.3888 x \$6,990 = \$2,717.71). The amount reported on Form W-2G would be \$9,717.71. The charity submits the withholding amount to the IRS on the Form 945.